



MORTGAGE BULLETIN

Volume XXIX

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Number 39

Real Estate Economists, Appraisers and Counselors

THE MORTGAGE SHARE OF THE FLOW OF CAPITAL

LAST year there was a net increase of \$62 billion in credit and equity investments. Of this total amount 31 percent was invested in mortgages. This was a net increase in the mortgage debt outstanding of \$19.2 billion. In the past five years mortgages have taken from 30 to 50 percent of the total net flow of capital funds. This is a greater share than any of the other credit and equity instruments received. Of course, these figures exclude the investment of individuals and corporations in themselves. Individuals invest their own funds in developing their own business. Corporations plow profits back into the business without selling bonds or stocks. The data, nevertheless, are representative of the market for capital funds.

The net flow of \$62 billion in the capital funds market during 1959 was used in the following way:

NET FLOW OF CAPITAL FUNDS

Type of Investment	Billions of Dollars	Percentage Share
Federal bonds of all kinds	11.4	18.6
State and local government bonds	4.9	7.9
Corporate bonds	4.7	7.6
Corporate securities	4.5	7.2
Mortgages		
Residential	13.6	
Other	5.6	
Total	19.2	31.0
Consumer credit	6.3	10.2
Bank loans not elsewhere classified	7.9	12.8
Other	2.9	4.7
TOTAL	61.8	100.0

The mortgage share of these funds has increased from 8 percent in 1939 to 23 percent in 1950 to 31 percent in 1959.

THE MORTGAGE SHARE OF THE FLOW OF CAPITAL

	1939	1950	1955	1956	1957	1958	1959
Total net flow into credit and equity instruments	\$4.9	\$44.0	\$43.8	\$30.6	\$36.7	\$45.4	\$61.8
Mortgages	.4	10.1	16.2	14.6	12.1	14.6	19.2
Mortgages as a percent	8	23	37	48	33	32	31

If the market for capital funds were a perfectly competitive market, the amount of funds invested in any instrument would be determined by the principles of supply and demand. There would be only one pure rate of interest. This rate would be determined by the interaction of the supply of savings and the demand for investments. People are likely to be induced to save more with higher rates of interest. With any given sum of capital funds people will invest in any project that will reap the highest returns. On the principle of substitution people will not invest in projects with yields that are below those that they can obtain elsewhere. Therefore, projects yielding below the market rate of interest will be rejected, while those yielding higher rates will be accepted. This would determine the proportion of funds invested in mortgages, stocks, or bonds. Investment in each area would proceed until the yields are equal. If it takes more money invested in real estate than in other businesses to bring its yield down to the yield on bonds and stocks, more funds will be invested in real estate mortgages. In this way the capital funds of the economy would be invested most profitably.

The rate of interest determined in this way would be a pure rate of interest. It would not include a risk factor, which causes the interest rate to vary with the probabilities of getting your money back. Nor would it include a management factor. Much of the difference between the return on mortgages and the return on a savings share in a savings and loan association is the cost of managing mortgage investments.

The pure interest rate does not include insurance against the personal risk of the borrower. Neither does it include the few points in the interest rate to cover an expected fall in the purchasing power of the dollar. Since the rate of interest quoted by the lender takes all of these factors into consideration, we have a source for a multitude of interest rates. Thus, the mortgage interest rates of the same maturity and loan-to-value ratio could vary because of different management costs, because of the credit rating of the borrower, or because of different expectations by different lenders. In fact, the better the lender knows his market and the borrowers, the more diversity there will be in his quoted interest rates.

The capital funds market in the United States today, however, is not a perfectly competitive market. There are barriers to the free flow of capital between places and between types of investment. These barriers include legal restrictions or benefits, habits of investment, and lack of knowledge. For example, commercial banks can lend only on mortgages with maturities less than 20 years and loan-to-value ratios less than 66-2/3 percent. Mutual savings banks now operate in only 17 States and are permitted to lend in other States only on FHA- and VA-insured mortgages.

Savings and loan associations consistently invest a high percentage of their assets in mortgages. During 1959 mortgages made up 83 percent of their assets. They are organized expressly to provide a place for individual savings to be invested in houses. Charles M. Torrance of the Federal Savings and

Loan Insurance Corporation has called these associations "specialty shops" that are in the business of selling homeownership through the mortgage lending device. This is an instance where a barrier to the free flow of funds is beneficial to the mortgage market.

Life insurance investments seem to be determined by individual preferences and habits rather than by differences in net yields. Saul B. Klamman, economist for the National Association of Mutual Savings Banks, said, "While there are no legal limits to a further relative expansion in mortgage investments by life insurance companies, many investment officers feel that present holdings have reached a satisfactory relationship to total war-end levels."

No discussion of barriers to the free and competitive flow of capital funds could leave out government interference. The government mortgage insurance program has made it easier for financial institutions to lend money on real estate located outside their immediate neighborhood. This has probably helped to make money for mortgages flow from areas of low mortgage interest rates to those of high rates. The historical difference between mortgage rates in California and New York has been narrowed for this reason. The introduction of the amortized mortgage has probably restricted the flow of funds directly from individuals to mortgages. To individuals without a great deal of capital, the amortized mortgage is not an attractive investment. The small sums of principal dribbled back to them must be accumulated before a new project can be found in which to invest. It takes a sizable investment portfolio to utilize, for immediate reinvestment, the returning principal on each mortgage.

Then there is the interference of Congress. In 1958 it allocated a billion dollars to be used by the Federal National Mortgage Association to buy mortgages in the secondary market to free funds for new mortgage investment. This is a case of taking government funds received through taxation and borrowing and directly aiding a particular investment by lending the house market more than it would have gotten in the free market.

During the tight money market last winter mortgage bankers and others were looking for new sources of money to lend on mortgages. The usual sources, life insurance companies, savings and loan associations, mutual savings banks, and commercial banks, were loaned up. People found that pension funds and fire, casualty, and marine insurance companies, were not investing very much in real estate mortgages. But to increase the flow of funds into mortgages from these sources requires removing obstacles to the free flow of funds. These funds have not invested in mortgages because they are unfamiliar with the mortgage market.

Union pension funds are about to become a new source. The AFL-CIO executive council voted to establish a department of investment to advise affiliated unions on mortgage investment. They will also begin educating the affiliates to encourage their lending on home mortgages. The unions will lend at the face value of the FHA- and VA-insured loans. They think that "discounts demanded by lenders from the face amount of the mortgages have raised effec-

tive rates to usurious levels in many areas." The goal of their program is to lower interest rates for home buyers and to bring a more profitable return for union fund investments. The unions, however, do not have a voice in many pension fund investments because they are set up by management with a trustee, often a bank.

One factor in pension funds neglecting mortgage investment is that many of the funds besides the union pension funds are managed by trustees with a lack of knowledge about mortgage investments. Another, however, is the high cost of servicing and initiating mortgage investments. Mortgage bankers, in their attempts to sell more people on mortgage investments, are making a valiant attempt to reduce these costs. Nevertheless, the management costs must be subtracted from the interest yield on mortgages before they can be compared with other investment yields. Roger F. Murray, at a Mortgage Banking Conference, said, "I would emphasize that institutional investing policies and practices change slowly and gradually even in response to strong pressures generated by the changing pattern of the demand for funds. . . I would argue that a favorable yield differential would have to exist for an extended period in order to rekindle the enthusiasms of these investor groups."

In spite of the barriers to free competition among investments, the main tendency is for funds to seek out the investments with the highest net yield. These net yields, or net interest rates, are dependent upon what people are willing to pay to borrow money, or upon the profitableness of business enterprise. The free market system is an amazing way out of the complex problem of determining what parts of the economy should receive what amounts of capital. It is the demand for mortgage funds and the amount of interest mortgage borrowers are willing to pay compared with the amount of interest other borrowers are willing to pay that will determine the mortgage share of the flow of capital.

These points bring up the problem confronting policy makers who are determined to help the housing construction market maintain a high level of activity. The idea has been expressed very well by Saul B. Klamon: "The provision of increased and improved housing facilities for our population must be among our Nation's leading goals. So, too, however, must be the provision of expanded educational facilities, and hospital and health centers. The Nation's roads and highways are, also, in need of expansion and improvement, our national defenses must be kept strong, and new and improved plant facilities are basic to the changing needs of American business. Are the funds for all of these requirements to be provided, in the main, through private market processes or are they to be provided through some other system -- some scale of priorities and allocations? This, I think, is a fundamental question confronting public policy makers. Should housing be singled out for special consideration because of its important social implications? There are fundamental social needs associated with other economic activities as well. Who is to establish the scale of special needs and priorities and to determine the share of funds to be made available for each activity?"

RESIDENTIAL APPRAISAL REPORT

Address of Appraised Property: _____

Owner's Name: _____

Appraisal Made for: _____

Date: _____ Appraiser: _____

APPRAISAL SUMMARY

APPRAISED VALUE - LAND _____ \$ _____

APPRAISED VALUE - IMPROVEMENTS _____ \$ _____

PRESENT-DAY MARKET VALUE OF PROPERTY _____ \$ _____

The value shown in this appraisal is market value, defined as: "... the highest price estimated in terms of money that a willing and well-informed buyer would be warranted in paying and a willing and equally well-informed seller justified in accepting for a property if placed on the market for a reasonable period of time; with both parties acting free of compulsion or duress and with all rights or benefits inherent in or attributable to the property included in said value."

The value of the property is expressed in dollars on the date above specified and is subject to any future changes which may occur in the value of the dollar.

All information and comments concerning the location, neighborhood, trends, construction quality and costs, obsolescence, condition, rents, or any other data of the property appraised herein represent the estimates and opinions of the appraiser, formed after an examination and study of the property.

While it is believed the information, estimates, and analyses given and the opinions and conclusions drawn therefrom are correct, the appraiser does not guarantee them and assumes no liability for any errors in fact, in analysis, or in judgment. No attempt has been made to render an opinion of title or of the status of easements or of any other matter of a legal character.

This appraisal represents the independent opinion of the appraiser free from any commitments and free from any present or expected future interest in the property, with the sole compensation for the employment being a fair professional fee.

Neighborhood Information

Public transportation in walking distance: ☐ Yes ☐ No

Schools: _____

Churches: _____

Distance from: Neighborhood stores _____ Buying center _____ Downtown district _____

Types of real estate nearby: ☐ Institutional ☐ Residential ☐ Commercial
☐ Industrial ☐ Vacant ☐ Farm

Estimated ages of buildings nearby: _____

Adverse influences: ☐ No ☐ Yes; describe _____

Zoning: _____

Remarks: _____

Lot Information

Municipality or twp. _____ School District _____ Subdivision _____

Lot no. _____ Block no. _____ Size: _____ x _____ Area: _____

Shape: ☐ Rectangular ☐ Irregular

Topographical features: _____

Landscaping: ☐ Extensive ☐ Average ☐ None

Street: ☐ Concrete ☐ Asphalt or macadam ☐ Gravel

Other features: ☐ Alley ☐ Sidewalks ☐ Water ☐ Elect. ☐ Gas ☐ Sewers

Remarks: _____

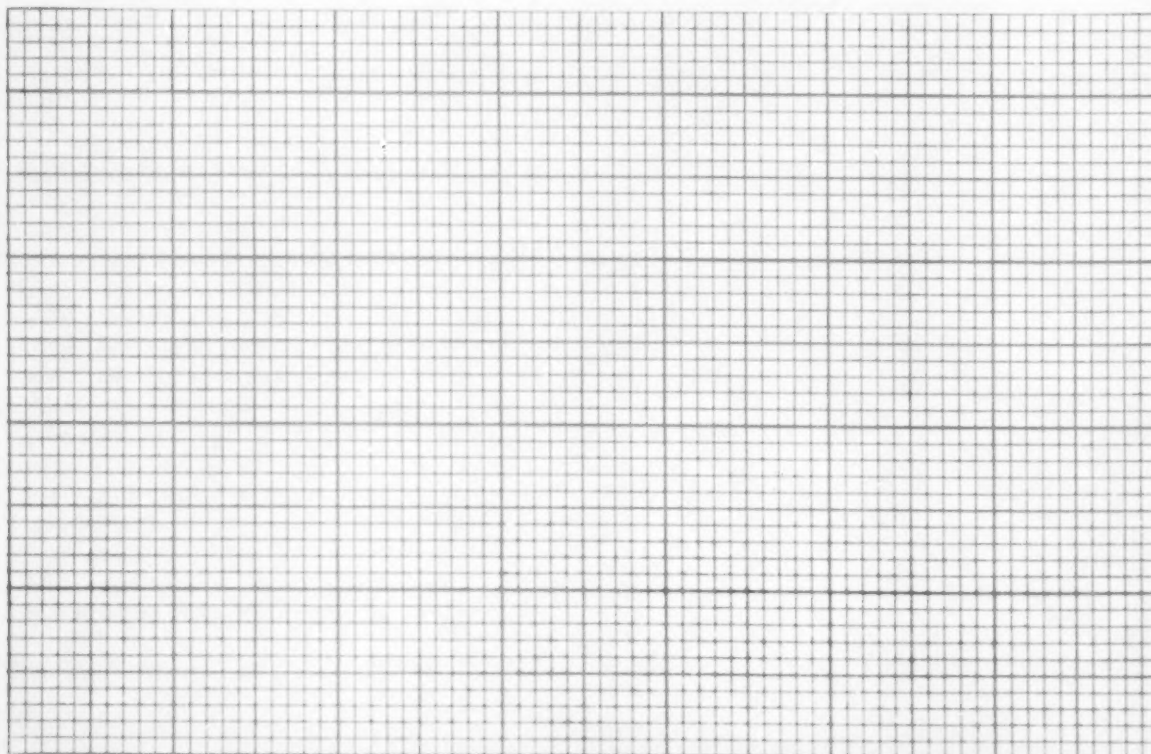
Land Value

A parcel of ground with _____ ft. frontage @ \$ _____ per front foot =
(or) _____ acres of area @ \$ _____ per acre =

\$ _____

\$ _____

APPRAISED VALUE - LAND \$ _____



BUILDING INFORMATION

DESCRIPTION OF IMPROVEMENTS

Exterior Detail																													
EXTERIOR WALLS					ROOF STRUCTURE					ROOF COVER					WINDOWS														
Frame siding					Flat					Asphalt shingle					Double hung														
Metal siding					Gable					Asbestos shingle					Casement														
Wood shingle					Hip					Wood shingle					Awning type														
Asbestos shingle					Gambrel					Metal					Picture														
Stucco on frame					Mansard					Slate					Frame														
Stucco on masonry					Mixed					Tile					Metal														
Brick 8"					Other					Tar and gravel (composition)																			
Brick 12"					Dormers lin. ft.					Other					Part Complete None														
Brick veneer					FOUNDATION					GUTTERS AND DOWNSPOUTS					Weatherstrip.														
Stone, rough					Poured conc. <input type="checkbox"/> 8" <input type="checkbox"/> 12"					Galvanized					Screens														
Stone, cut					Concrete block					Copper					Storm sash														
Concrete block					Stone					Aluminum					Combination														
Composition siding					Posts or piers					None																			
Other					Other																								
Interior Detail															Mechanical Detail														
															ELECTRICAL														
															PLUMBING														
															Knob and tube														
															Cable <input type="checkbox"/> Armored <input type="checkbox"/> Non metl														
															Rigid conduit														
															Low voltage system														
															HEATING AND AIR-COND.														
															Gravity warm air														
															Forced warm air														
															Steam														
															Hot water														
															Radiant														
															Floor or wall furnace														
															Stove														
															<input type="checkbox"/> Butane														
															<input type="checkbox"/> Oil-fired <input type="checkbox"/> Gas-fired														
															<input type="checkbox"/> Hand-fired <input type="checkbox"/> Stoker														
															Air-conditioned _____ tons														
															MISCELLANEOUS														
															Insulation: <input type="checkbox"/> Walls <input type="checkbox"/> Ceil.														
															Fireplaces: No. _____														
															Venetian blinds														
															Built-in cabinets														
															Kitchen vent. fan														
															Attic fan														
															Age & Condition														
															Garage & Accessory Bldg.														
															GARAGE														
															Year built														
															Year remodeled														
															% remodeled														
															Foundation														
															Ext. walls														
															Ext. trim														
															Roof														
															Int. walls														
															Int. ceilings														
															Floors														
															Electric														
															Heat sys.														
															Plumb. sys.														
															Avg. Tot. Cond.														
															No. cars														
															Walls														
															Floor														
															Roof														
															Doors														
															Dimensions x														
															ACCESSORY BLDGS.														
															Description														
															Dimensions x														
															Dimensions x														

Additional Notes

YARD IMPROVEMENTS

Replacement Cost New - Yard Improvements	\$
--	----

3 _____

Functional obsolescence % \$

Economic obsolescence _____ % \$ _____

Less Total Depreciation \$ _____

Quality	Sty. ht.
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Area of _____ sq. ft. @ \$ _____ sq. ft. = \$ _____

Garage: Area of sq. ft. @ \$ sq. ft. = \$

Other: Area of _____ sq. ft. @ \$ _____ sq. ft. = \$ _____

Porch: Area of _____ sq. ft. @ \$ _____ sq. ft. = \$ _____

Area of _____ sq. ft. @ \$ _____ sq. ft. = \$ _____

Total Replacement Cost New - Buildings \$ _____

APPRAISED VALUE - IMPROVEMENTS

3

Assessment: Land \$ _____ Bldgs. \$ _____ Total \$ _____ + est. assessment ratio _____ = \$ _____

Former sale of subject property:	Date	Indicated price \$	x Wenzlick multiplier	= \$
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Date _____ Indicated price \$ _____ x Wenzlick multiplier _____ = \$ _____

[illegible]

Variation from subject property:

Address	Date	Ind. price \$	x multiplier	= \$
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Variation from subject property:

Address	Date	Ind. price \$	x multiplier	= \$
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Variation from subject property:

VALUE ESTIMATE FROM THE MARKET DATA APPROACH	\$
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Additional Notes



MEMORANDUM

Many of our subscribers buy and use our Residential Appraisal Report Form as attached -- some with their name printed at the bottom of page 4 and some just type in their name.

The many complimentary letters we receive on this copyrighted form may prompt you to want some for your use. A price list and handy order form are below:

100 - \$4.00	600 - \$20.50	2,000 - \$55.00
200 - 7.50	700 - 23.50	3,000 - 80.00
300 - 11.00	800 - 26.50	4,000 - 105.00
400 - 14.50	900 - 29.50	5,000 - 125.00
500 - 17.50	1,000 - 30.00	Over - \$22.00 M

IMPRINTING: Any quantity to 5,000 - \$10.00
Over 5,000 - no charge for imprinting

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St. Louis 1, Mo.

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() Plain () Printed as shown on opposite side
(Limit - 3 lines)

Name _____

Address _____

City _____ Zone _____ State _____

() Bill me _____ + postage () Check enclosed
(Wenzlick pays postage)



